

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6188**

**BILL NUMBER:** HB 1150

**DATE PREPARED:** Nov 20, 2000

**BILL AMENDED:**

**SUBJECT:** Textbook Funding.

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**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
X FEDERAL

**IMPACT:** State & Local

**Summary of Legislation: Textbook Purchases-** This bill provides textbooks to students in public schools at no charge to the student's family. It requires the Department of Education (the Department) to purchase those textbooks that are adopted by the Department and selected by school corporations for use by the school corporations' students.

**Textbook Rental Program-** It abolishes the Public School Textbook Rental Program and the Public School Textbook Library Program.

**State Reimbursement-** It abolishes the program that provides state reimbursement for textbook assistance to certain public school students. It redefines "textbook" to include the various kinds of instructional materials that are currently eligible for state reimbursement under the textbook assistance program.

**Effective Date:** July 1, 2002.

**Explanation of State Expenditures:** School corporations would be provided the use of free textbooks purchased by the Department in accordance with this bill. The projected cost to the State would be approximately \$79.3 M in FY 2003, and \$70.0 M in FY 2004 based on projected textbook expenditures by school corporations. This bill does not contain an appropriation.

The added cost to the State General Fund would depend upon the type of textbook adopted in a particular year. To calculate the net cost in this analysis, projected expenditures associated with the purchase of textbooks are offset by phasing out State General Fund costs associated with the purchase of textbooks. These costs are as follows: 1) appropriations for textbook rental fees; and 2) reduction of Poor Relief PTRC. In addition, the potential impact on the TANF Block Grant Program is used to calculate the final net cost to the State General Fund.

**Elimination of Textbook Reimbursement-** P.L. 273-1999 appropriated \$16.8 M for FY 2001 to pay for a portion of the costs of textbook rental fees that are waived by school corporations for children of families who qualify for the Federal Free and Reduced Lunch Program. Since this bill abolishes the Textbook Rental Program, the State

General Fund would realize a savings of \$16.8 M for FY 2002 and thereafter (based on the assumption that future appropriations remain at the FY 2001 level).

*Potential Impact on the TANF Block Grant Program-* The elimination of the textbook rental program may impact the Temporary Assistance for Needy Families (TANF) program. States are required to meet a specified maintenance of effort (MOE) level in order to qualify for the federal TANF block grant of about \$206 M annually. Indiana's annual TANF MOE obligation is \$121 M. The Family and Social Services Administration (FSSA) meets this obligation by expending state funds appropriated for this purpose and by claiming expenditures from other state agencies that meet the purposes and requirements of eligible TANF MOE expenditures.

FSSA has been able to include as MOE about \$8 M of the state expenditure for textbooks described above because it is an expenditure targeted at the low-income population. However, because the proposed textbook grant program is targeted at the general student population, the state expenditure will not qualify as an MOE expenditure, thus requiring either additional expenditures in another program or reclassification of existing, but unidentified, expenditures as MOE. (The reclassified funds, if qualifying, must also demonstrate an increase in expenditures from the TANF base year. Only the increase in funds can be included as meeting the TANF MOE requirement. This is the reason FSSA cannot count the entire \$16.8 M textbook expenditure described above as MOE.) Actual aggregate MOE expenditures for FY 1998 through FY 2000 and the proposed MOE expenditures in FY 2001 totaled \$121 M annually - the level of Indiana's MOE obligation.

**Poor Relief/Reduction of PTRC-** The state pays 20% Property Tax Replacement Credit (PTRC) on poor relief levies. The reduction in the poor relief levy explained under local revenues will result in a projected savings to the State paid by PTRC of \$94,986 for FY 2003 (20% of \$474,931). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the State General Fund. Therefore, any reduction in PTRC actually reduces expenditures from the State General Fund.

The following table illustrates the potential net cost to the State regarding the provisions of this bill assuming projected levels of textbook expenditures, PTRC, and textbook appropriations that continue beyond the biennium at the FY 2001 level.

<u>FY</u>	<u>Textbook Adopted</u>	<u>Textbook Expenditures</u>	<u>Elimination of State Appropriation for Textbooks</u>	<u>Less: Reduction in PTRC</u>	<u>Net Cost*</u>
2003	Language Arts & Foreign Language	\$96.2 M	(\$16.8 M)	(\$0.095 M)	<b>\$79.3 M</b>
2004	Social Studies	\$86.9 M	(\$16.8 M)	(\$0.089 M)	<b>\$70.0 M</b>

\*As described above in the TANF section, the net cost to the State shown in the table could increase by up to \$8 M per fiscal year if additional expenditures in another program are required. However, reclassification of existing, but unidentified, expenditures could mitigate the net increase.

#### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** School corporations may have additional funds to spend if revenue from the State exceeds the current funding sources as explained below. This bill would require that school corporations maintain and loan textbooks free of charge regardless of whether or not a state appropriation is made.

**Explanation of Local Revenues:** School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the Federal Free and Reduced Lunch Program, and financial assistance from township trustees. As proposed by this bill, school corporations would be eligible to use State monies instead of the above sources.

Under current law, school corporation textbook revenues are projected to exceed expenditures by \$12.4 M for CY 2002 but are not projected to do so in CY 2003.

**Projected Costs and Net Savings**

<u>CY</u>	<u>Projected Revenue</u>	<u>Projected Costs</u>	<u>Net Savings</u>
2002	\$75.4M	(\$63.0M)	<b>\$12.4M</b>
2003	\$78.0M	(\$78.2M)	<b>(\$.2M)</b>

**Township Property Tax Levies-** The townships' respective maximum levies would be reduced by approximately \$491,000 in CY 2002 and \$460,000 in CY 2003 which would translate into a gross property tax reduction in the same amount for each calendar year. Taxpayers would realize a net property tax savings (after PTRC) of approximately \$393,000 in CY 2002 and \$368,000 in CY 2003. The projected savings for local units of government in future years is based on expenditures last reported in CY 1999 of \$339,851.

**School Corporation Levies-** Also, under current law, school corporations may provide free textbooks through elementary and high school libraries if 51% of the registered voters in the school district approve a referendum. This bill would reduce the General Fund levy of school corporations that currently provide free textbooks. However, local monies would be replaced by State monies in accordance with this bill. The specific number of school corporations that do so is currently indeterminable, however, at least two have been identified as providing free textbooks to students. The school corporations are as follows: 2) East Gibson School Corporation; and 2) Marion Community Schools.

**Methodology Background-** The revenues that school corporations receive from textbook fees and sales are projected to increase at an average rate of 3.5% annually. Monies from the State General Fund for textbook reimbursements are assumed to remain at the FY 2001 level (General Fund reimbursements), and assistance from township trustees is projected based on a five-year history beginning in FY 1995 (Township Trustee assistance). Textbook purchases are projected to increase by an average rate of 4.4% annually.

**State Agencies Affected:** Department of Education, State Board of Tax Commissioners.

**Local Agencies Affected:** School corporations.

**Information Sources:** Department of Education ORACLE Data Tables, East Gibson School Corporation, and Marion Community Schools.